OPASTCO

ORGANIZATION FOR THE PROTECTION AND ADVANCEMENT OF SMALL TELEPHONE COMPANIES

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FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF SECRETARY

EX PARTE NOTICE

September 6, 1995

Mr. William F. Caton
Secretary
Federal Communications Commission
Room 222
1919 M Street, NW
Washington, DC 20554

Re: CC Docket No. 94-1

Dear Mr. Caton:

On September 6, 1995, representatives of the Organization for the Protection and Advancement of Small Telephone Companies (OPASTCO) met with Kathleen M.H. Wallman and her staff. Those individuals present were John Rose (OPASTCO), Lisa Zaina (OPASTCO), and Ken Johnson (OPASTCO).

OPASTCO presented its position on how unrestricted access pricing flexibility threatens geographic toll rate averaging and the provision of universal service. OPASTCO urged a measured approach to pricing flexibility that would not be at the expense of rural subscribers who are most reliant on the interexchange network.

This ex parte notice was filed with the Secretary of the Commission on September 6, 1995.

Respectfully submitted,

John N. Rose
Executive Vice President

cc: Kathleen M.H. Wallman

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Unrestricted Access Pricing Flexibility Threatens Geographic Toll Rate Averaging and the Provision of Universal Service

In light of the effect on geographic rate averaging[1] OPASTCO cannot support unrestricted access charge flexibility. Pushing access charges to costs would have a deleterious effect on the provision of universal service in rural areas due to the pressure it would put on the geographic averaging of toll rates. OPASTCO would not oppose incremental pricing flexibility that would move the RBOC access charges closer to those of the rural LECs, as long as the measured approach did not result in geographic rate deaveraging. Before allowing even moderate access pricing flexibility, the FCC should establish a mechanism that ensures pressures from this flexibility do not result in rural customers paying higher toll rates due to any attendant geographic rate deaveraging. Hopefully, a measured approach will allow the BOCs some of the flexibility they seek, without precipitating the deaveraging of toll rates at the expense of those subscribers who are most reliant on the interexchange network.

Rural America currently benefits from the policy of geographic rate averaging for both interstate and intrastate toll rates. The costs of carrying calls to high-cost, low-volume areas are averaged with the costs of carrying calls to high-volume areas; thus carriers charge uniform rates for carrying toll calls to all locations.

The costs of carrying a call to rural areas generally are much higher because of distance and less telephone traffic going to that area. If rates were deaveraged, a call would cost more on a low-volume rural route than would a call of equal distance on a high-volume urban route. As a result, rural customers would be paying higher rates.

Geographic toll rate averaging, both interstate and intrastate, is critical to ensuring that rural areas continue to have access to reasonably priced toll service. Any efforts to push toll rates in rural areas to their stand-alone costs could force many to forego the use of toll service. This could be disastrous for rural customers. Clearly, the calling scope in a rural area is much smaller than that in an urban area. Often, calls such as those to doctors, schools and hospitals are toll calls for customers in rural areas. Thus, allowing toll rates to skyrocket out of control can leave rural customers without access to life-sustaining services. Furthermore, loss of access to toll could isolate these rural customers, many of whom are elderly, from friends and family. This loss of these rural customers would have a deleterious effect on not only rural development and economic viability which depends upon the quality of service and equivalent prices, but also the value of the network as a whole.

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[1] Although geographic rate averaging is currently just a Commission "policy", both S. 652 and H.R. 1555 clearly include geographic toll rate parity in its definition of universal service. Both bills state that the rates charged by providers of interexchange telecommunications service to customers in rural and high cost areas shall not exceed those charged by each provider to its customers in urban areas.

Thus, rural residents who, as mentioned supra, who often require toll calls to reach their doctors, schools, hospitals, etc., will be forced to pay a higher rate for these calls. And, as is clear from the following chart compiled from the FCC Universal Service Fund Notice of Inquiry (USF NOI) Data Request data, rural customers already tend to have higher toll bills than those of their urban counterparts. Even though their rural local bills tend to be lower[2], the higher toll bills result in comparable total bills for rural and urban Americans.

Higher Toll Bill and Lower Local Rates in Rural Areas Reflect Smaller Calling Scope

Category	Number of Study Areas	Average Local Service Bill	Average Total Residential Bill
Under 5K	549	$17.62	$53.37
5K-10K	98	$17.44	$48.67
10K-25K	60	$20.19	$54.41
25K-50K	28	$19.19	$49.15
50K-250K	18	$21.80	$54.83
250K-1M	5	$27.45	$55.02
>1M	14	$27.91	$57.79

OPASTCO understands the urgency felt by the larger companies in their quest for pricing flexibility. They are facing competition from carriers that do not have high cost areas with which they average their rates. Thus, it is not a surprise that these companies would want to lower their access charges in the areas in which they face competition, and at the same time, raise the access charges in the areas in which they do not face competition. In fact, the Commission had anticipated this in its NPRM in CC Docket 94-1 when it stated that "[I]n view of developing competition in the local exchange services market, one of our major areas of concern will clearly be whether the LEC plan should be revised to permit more streamlined and flexible regulation of LEC services when market changes justify such revisions". Although market changes may warrant discussions regarding revisions in the composition of baskets and bands or potential streamlining, the FCC is bound by its commitment to universal service to ensure that such revisions in the composition of the baskets and bands, or subsequent streamlining, does not disturb the provision of universal service. Moreover, in discussing potential modifications to access charge pricing flexibility, the FCC must recognize that these decisions are not transparent to small and rural LECs and their customers.

[2] The lower local bills often reflect a much smaller calling scope in rural Americans. This smaller calling scope often necessitates a greater number of toll calls.

Unrestricted pricing flexibility will result in a decrease of access charges for urban customers, with a corresponding increase in access charges for rural customers. It is highly probably that concurrent with this deaveraging of access charge rates will be a deaveraging of the toll rates by the interexchange carriers that pay these access charges.

Rural customers facing higher toll rates can do one of two things. First, they can continue making calls and pay the higher rates. Second, they may curtail their long distance calling. Many rural Americans may be forced to take the latter action. As mentioned supra, such a decision may force many rural Americans to forego access to life-sustaining services. Already, some proposals in CC Docket 80-286 will invariably lead to higher local rates for rural customers. Combining higher toll rates with higher local rates could result in forcing many customers in rural areas to discontinue service. OPASTCO recently conducted a study in which it asked customers what level of increase in their local bills would cause them to drop off of the network. The responses follow.

OPASTCO Subscriber Survey Respondents Saying They Would Disconnect Service

Level of Monthly Price Increase	Number of Subscribers Disconnecting Service	Number of Subscribers Responding to Question	Percentage of Subscribers Disconnecting Service
$5	62	1429	4.3%
$10	117	907	12.9%
$15	207	764	27.1%
$25	396	886	44.7%

Applying these percentages to the data compiled from the OPASTCO Study Group LEC[3] data, OPASTCO was able to determine the potential number of subscribers who would disconnect service. The data indicates that approximately 573,000 or 20.4% of the 2.8 million subscribers of the study group LECs would disconnect their telephone service.

However, even more revealing than these numbers regarding disconnection is a note that was included in the survey returned by one customer. The note said:

> The telephone is my best friend and companion. I live alone in my house. Since I am disabled, walk with a crutch, I have three telephones -- one in

[3]The OPASTCO Study Group LECs are 424 small, rural LECs that settle on a cost basis in both the NECA Common Line and Traffic Sensitive pools. The LECs represent approximately 2.8 million rural access lines.

my kitchen, one at my bedside, one in my living room beside my favorite chair. I could not live alone at my age -- 88 -- if I didn't have my telephone.

The Commission has clearly recognized that first and foremost, its policies must ensure universal service. In fact, it designates infrastructure development as a baseline issue in CC Docket 94-1. Furthermore, it characterizes Baseline Issue 1b in the following manner: "Whether the goal of providing universal service to all geographic areas and of equal type and quality for all Americans at affordable prices is being met, or whether we should revise the LEC price cap plan to ensure provision of universal service". Ironically, the Commission is being asked to consider a request (streamlining regulation to allow for flexibility in access charge pricing) that has the potential to jeopardize the provision of universal service.

Thus, regulators face a dilemma. They must maintain universal service and ensure that people achieve and maintain access to the burgeoning information infrastructure. Yet, at the same time, they must try to accommodate the changes that are being precipitated by competitive market forces and technology. The request for pricing flexibility presents this conundrum.

OPASTCO believes that unrestricted pricing flexibility is not in the public interest in that it is likely to precipitate geographic rate deaveraging that could threaten universal service in rural America. A moderate, careful approach to pricing flexibility may be warranted. However, the Commission must ensure that some mechanisms are in place to prevent any unreasonable increases in rural toll rates that may accompany subsequent attempts to deaverage toll rates that are brought on by changes in the access charge rates. Additionally, the Commission must determine whether access pricing flexibility will place pressure on the RBOCs' contribution to Long Term Support[4] (LTS) and the level of the Subscriber Line Charge (SLC).[5]

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[4]This concern arises if one assumes that the request for access charge pricing flexibility will include the carrier common line (CCL) charge. This type of usage-based charge covers the portion of the LECs' fixed or non-traffic sensitive costs of providing access. LTS represents contributions from those LECs that no longer are members of the NECA common line (CL) pool. These contributions allow the remaining CL pool members to charge the IXCs a CCL rate equal to what that rate would be if all LECs remained in the pool.

[5]This monthly access charge that subscribers pay to LECs has contributed to the decrease in toll rates over the years. (Many don't attribute any decrease in toll rates to the SLC. Often people suggest that competition in the IXC market has been the sole contributor to the decrease in the toll rates.) It is possible that an increase in the access charges may place upward pressure in the SLC. Those SLCs most likely to increase would be the residential ones (urban and rural).